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ADVERTISING

Pandora Courts Local Advertisers, by Offering Well-Defined Listeners



Aaron Houston for The New York Times

William Feinstein of Planet Honda says iPhone traffic to his site quadrupled after he advertised on Pandora.

By BEN SISARIO and TANZINA VEGA
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The music was pumping and the finger food laid out in abundance one recent evening in a subterranean Manhattan bar, as executives of [Pandora Media](#), the Internet radio service, mingled with some of their most prized new advertisers.

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Alex Wong/Getty Images

Most of the clients, however, were not representing big corporate accounts or multimillion-dollar national campaigns, but rather local businesses whose budget might top off at \$20,000 a month. Yet they are the focus of one of Pandora's most important new corporate strategies as it competes with terrestrial broadcasters for a chunk of radio's \$17 billion ad market.

Pandora's pitch to advertisers is that its technology can cater to consumers with far greater precision than radio — it can pinpoint listeners by age and sex, ZIP code or even musical taste — and that as it grows, Pandora will effectively be the top station in many cities.

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Tim Westergren

“A dollar spent on Pandora is better than a dollar spent on terrestrial radio,” said Tim Westergren, the company’s founder and chief strategy officer, nearly shouting at a corner table to be heard above the din of his party.

Competing head-to-head with terrestrial radio’s armies of local sales staff members will not be easy. But for Pandora, increasing ad revenue is essential.

The service went online in 2005, streaming free music tailored to listeners’ tastes, and its growth has been explosive. In the last two years, it has gone from 45 million to 125 million registered users, and its revenue has increased from \$55 million to \$274 million, the vast majority of it from advertising (it also sells ad-free access for \$36 a year). In March, Pandora streamed a billion hours of music.

But the company has never turned an annual profit, and its stock has taken a beating. It began trading last June at \$16 a share, and recently hit a record low of \$8.54. The array of analysts’ target prices — from \$3.75 to \$18 over just the last month — suggests that Wall Street does not know quite what to make of Pandora.

The company’s costs are a concern. Under the terms of its music licenses, it must pay more in royalties with each new user; last year it paid out \$149 million, or 54 percent of its revenue — a far higher percentage than broadcasters pay.

The path to profitability, as Pandora’s executives and some of its champions on Wall Street see it, is through car dealerships and mattress shops.

“Local advertising dollars are the key component of Pandora’s future success,” said Jordan Rohan, an analyst at Stifel Nicolaus. “And the company has amassed enough of an audience that it can no longer be overlooked by radio advertising dollars.”

This year, Pandora has had 400 local advertising campaigns across the country. One new client was Planet Honda in Union, N.J., whose president, William Feinstein, said he gave up on terrestrial radio years ago because he felt it cast too wide and expensive a demographic net.

But attracted by Pandora’s ZIP-code targeting, he spent \$10,000 to advertise on the service in January. iPhone traffic to his Web site — which he attributes to the ads — more than quadrupled, Mr. Feinstein said, and so he increased his spending to \$15,000, then \$20,000.

“A light bulb went off,” he said at Pandora’s party, holding a glass of wine. “We don’t need to buy five radio stations. We can buy one.”

Pandora believes the targetability of its ads will lead local businesses to see it as an attractive alternative to terrestrial radio. “This is really powerful information, and ensures that you don’t waste your money in the wrong area,” said Heidi Browning, the company’s senior vice president for strategic solutions.

The same goes for the amount of audio advertising it subjects listeners to. While ads on terrestrial radio come in blocks of as long as five or six minutes at a time, Pandora’s spots, at 15 to 30 seconds, run only once every 20 minutes, Ms. Browning said. Users encounter ads only if they are engaged with the site, which could mean clicking a “thumbs up” or “thumbs down” to a song or changing a station.

(That has not stopped listeners from taking to Twitter to complain that Pandora’s ads are intrusive, nor some analysts from saying that using the service is too passive an activity for the spots to have much effect.)

In addition to audio segments, Pandora’s ad menu includes Web banner ads, which can include video; “skins” that allow an advertiser to essentially wallpaper the site; stand-alone video ads; and branded music channels. To promote engagement, audio segments can be accompanied by clickable display ads offering coupons or product information.

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One potentially big category for Pandora this year, particularly when it comes to local markets, is political advertising. Like the car dealerships, campaigns can zero in on voters by age, ZIP code or Congressional district. (Or, just in case a race turns musical, by genre.)

By trying to take ad dollars away from broadcasters, Pandora is competing over a pot of money that is expected to barely budge in coming years, and the broadcasters are doing everything they can to hold on to it.

According to the research firm eMarketer, ad revenue for online radio is expected to soar 67 percent, from \$900 million this year to \$1.5 billion in 2016. But over the same period, over-the-air radio's take will advance only around 4 percent, to \$16.5 billion. Agency executives say that terrestrial and online radio ads are increasingly being counted as part of the same "audio" category, which implies a zero-sum game.

"At the end of the day, the client budget isn't growing; in some cases it's shrinking," said Dave Marsey, a senior vice president at Digitas, part of the Publicis Groupe. "You're seeing dollars move from out of terrestrial and into more accountable, targetable channels."

The big broadcasters, like Clear Channel and CBS Radio, say they do not see Pandora as a significant competitor. While Pandora portrays itself as a new form of radio, the broadcasters argue that Pandora is a different form of media entirely. One important distinction, they say, especially when it comes to local ads, is that Pandora cannot offer the local content — news, traffic, weather, talk — that for many listeners (and advertisers) defines what radio is all about.

"Pandora is not a threat to radio, nationally or locally," said Tim Castelli, Clear Channel's executive vice president for digital sales. "It's a playlist generator. It does not really deliver what radio does, which is that rich, personal experience."

Pandora and the radio companies have also tussled over audience measurement methods, and the broadcasters have moved onto Pandora's turf as well, with similar apps like Clear Channel's iHeartRadio.

But when it comes to signing up local businesses, advertising executives like Jeff Lancot of the digital advertising agency Razorfish, also part of Publicis, say that Pandora's success or failure may simply come down to how many salespeople it has in the field. CBS Radio, the second-largest broadcaster by revenue, has a sales staff of 1,200, said Michael Weiss, its president for sales; Pandora has fewer than half as many total employees.

"The boots on the ground," Mr. Lancot said, "gets you the local advertiser."

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